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SIPDIS

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DEPT PLS PASS USAID FOR AFR/SUDAN
DEPT PLS PASS TREASURY FOR OFFICE OF INTERNATIONAL AFFAIRS AND USED
WORLD BANK

SENSITIVE
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TAGS: [EFIN](#) [ECON](#) [EAID](#) [PGOV](#) [SU](#)

SUBJECT: KHARTOUM CENTRAL BANK GRANTS THE SOUTH AUTHORITY TO
ADMINISTER INDEPENDENT FINANCIAL SYSTEM

¶1. (U) On December 15 the Central Bank of Sudan (CBoS) Board of Directors approved the "Central Bank of Sudan Policies for the Year 2008." Inter alia, the "2008 Policies" document grants the Bank of Southern Sudan (BoSS) the authority needed to promulgate long-delayed independent financial regulations for the South. "2008 Policies" was drafted by BoSS staff with the assistance of USAID-funded technical advisors and submitted to the CBoS Board for approval.

¶2. (U) Under the Comprehensive Peace Agreement (CPA), Southern Sudan is authorized to develop its own interest-rate based financial system, separate from the Sharia-based system in the North. The South's system is to be supervised by the BoSS, which operates as a branch of the CBoS in Khartoum, managing the interest rate-based system in the South. (The Governor of the BoSS and two other Southerners sit on the Board of the CBoS.) Under this "one country, two systems" arrangement, country-wide monetary policy is established by the CBoS Board in Khartoum, but implemented separately in North and South by the CBoS and the BoSS. Likewise the two financial systems are to be supervised independently of each other.

¶3. (U) Approval of the "2008 Policies" provides the BoSS with full authority to perform the most critical functions to develop an interest-rate based financial system. The "2008 Policies" document instructs the BoSS to adapt and use for Southern Sudan (1) prudential rules and regulations, and (2) monetary-policy instruments (e.g., open-market operations), with the rules and regulations required for their use. This provides the BoSS with the authority needed to begin exercising its responsibilities to implement monetary policy and to supervise commercial banks.

¶4. (SBU) Comment: The "2008 Policies" is a significant step towards permitting the BoSS to take on the functions of a standard central bank and achieve the goal of a market-based financial system independent of Khartoum. Draft banking regulations, prepared with the assistance of USAID-funded technical advisors, have been on hold at the BoSS for some time pending CBoS authorization. The way should now be clear for the BoSS to begin implementing monetary policy through conventional monetary-policy instruments, together with required rules and regulations.

POWERS